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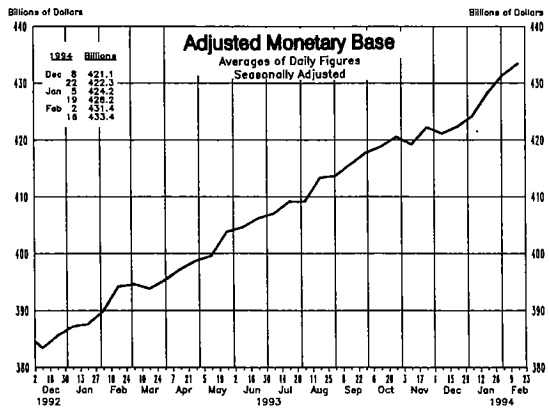
Mar. 2, 1994 **LETTER 1142**

GREENSPAN: To quote our Fed chairman, *"The outlook, as a result of subdued inflation and still-low long-term interest rates, is the best we have seen in decades"* (Feb. 22 before Congress). Well, this will give us a chance to see how good a prophet the Fed chief is.

"PUMP and HIDE": I don't know why nobody else has figured this out (or at least written about it), but here's the real story of what's happening. The Fed is continuing to pump up bank reserves at a furious pace as this latest chart from the *St. Louis Fed* reveals. Over the last 12 months, Fed pumping has never once dropped below a rate of 10% (and since Dec. 22 pumping has increased to a frantic rate of 17.7%).



Adjusted Monetary Base

To the average of two maintenance periods ending:	Compounded annual rates of change, average of two maintenance periods ending: 2/17/93	5/12/93	7/21/93	8/18/93	9/15/93	10/13/93	11/10/93	12/22/93
7/21/93	9.9							
8/18/93	10.0	11.6						
9/15/93	10.2	11.6	11.0					
10/13/93	10.4	11.7	11.3	11.6				
11/10/93	9.8	10.6	9.7	9.5	6.4			
12/22/93	9.0	9.3	8.1	7.6	6.4	4.3		
1/19/94	9.5	9.9	9.1	8.8	8.2	7.2	8.1	
2/16/94	10.3	10.9	10.5	10.6	10.4	10.1	11.5	17.7

Of course, this process is basically inflationary. So the Fed has a big problem -- how do you re-inflate the US economy while simultaneously hiding the tell-tale inflationary results? Answer: Keep pumping up bank reserves -- but smash the inflation barometer. The barometer that the Fed has zeroed in on is gold. So the Fed says, forget the surging M-I money supply, forget bulging bank reserves -- just concentrate on the price of commodities and more importantly -- gold. Since the public doesn't watch commodities (except, of course, through the price of goods at the supermarkets), the Fed's ultimate target is gold. Furthermore, implies Mr. Greenspan, we might just administer another boost in the Fed funds rate, so don't expect any forthcoming rise out of gold.

Thus, the Fed's all-out battle to re-inflate the economy while at the same time holding down the price of gold. You're skeptical, you don't believe it. This clip is from the Feb. 23 *WSJ*.

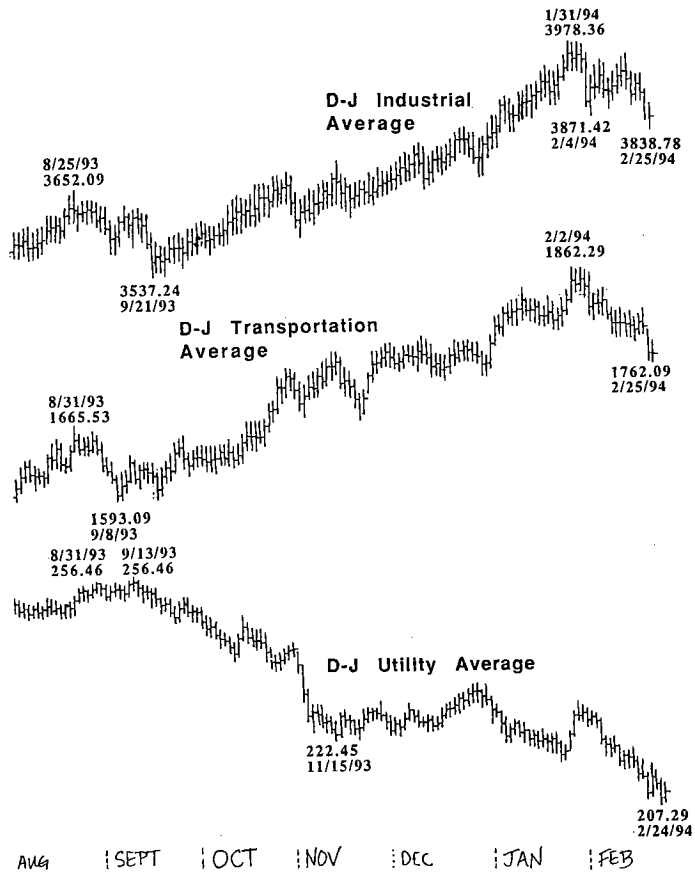
> Responding to a question from Rep. John LaFalce (D., N.Y.), Mr. Greenspan underscored the significance of changes in the price of gold, saying it is "a reasonably good indicator amongst others of what inflation expectations are doing. . . . It's not a perfect indicator, but it is a very good indicator."
>
> With money-supply measures no longer providing a useful guide for the Fed, Mr. Greenspan added, "we are seeking anything which gives us insight into the process, and what history does tell us is that gold is a useful indicator thereof." Former Fed Gov. Wayne Angell, long an advocate of tracking gold prices, smiled and nodded from his seat in the audience.

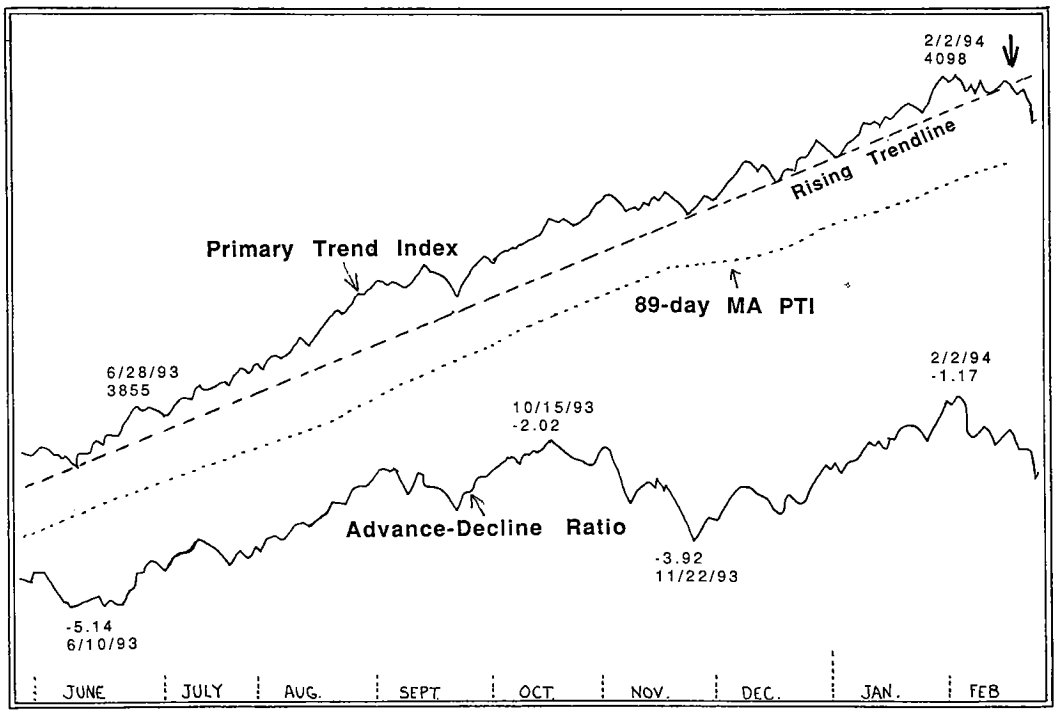
Feb. 18 DJIA 3887.46; PTI 4078; A-D Ratio -2.21
Feb. 25 DJIA 3838.78; PTI 4074; A-D Ratio -2.66
Dow Yield: 2.62%; Dow Price/Earnings: 25.7
Dow 200-day MA: 3658; Dow 30-day MA: 3925
Dow Times Book Value: 3.34; PTI 89-day MA: 4040
Percentage of Undervalued Blue-chips: 9%
Dow Low Risk Buy Index: +113; Gold-PTI: 1028
Gold 40-week MA: 377

Question: Can it work? Russell answer: They may be able to get away with it for a while, but the longer gold is talked down and held back, the greater will be the ultimate bull market advance.

THE STOCK MARKET: In the last Letter I described the major problem that is confronting the stock market -- namely that the market is selling at an overvaluation level that, historically, has always been associated with major tops.

This single fact of overvaluation presents a real dilemma for the serious investor. Informed investors know that ultimately





VALUES rule the market. Therefore, in view of today's super-overvalued market, shouldn't an investor be selling stocks in this area, if, indeed, he still owns any stocks at all?

My answer to this question has been, "Yes, he should be out of the market or at least selling his wares." In the last Letter I drew attention to the almost ridiculous overvaluation in this market as exemplified by the S&P 500 Composite, which is selling at an historic high of 37.7 times dividends. I noted that in the past, any time the S&P 500 has sold for as much as 35 times dividends, the market was on the edge of important trouble. Therefore, at the recent high of 37.7 times the S&P dividends, the market was not only discounting a rosy future, it was discounting a "rosy hereafter".

It is well to remember that every story must have an ending, and every trend must eventually die. With each push into new high ground the sophisticated investor had to be asking himself, "Is this it, is this the final push prior to a major bear market?" And the more often the market observer is forced to ask that question (and he's been asking it for three years), the more frustrated he becomes. Until eventually, of course, he will be correct.

PRICE ACTION: Following the Fed's little rate boost, the market sold off precipitously (Dow down 96 points for the day). That sell-off provided us with handy marker levels on the downside. The lows of the decline were recorded on February 4 -- **3871.42** for the Dow, 1826.32 for Transports. The Transports promptly sank well below their February 4 low, but Industrials rallied.

However, the Industrials' rally quickly petered out, and on February 24 the Industrials plunged below their February 4 low. This represented the most bearish action seen by the market in a long time. Any time panic lows (in this case the February 4 lows) are decisively broken during the third (psychological) phase of a bull market, such action must be taken very seriously.

On top of the bearish action of the Industrials and Transports, the Utility Average together with the bonds provided their own bearish signals. I have emphasized the danger of this kind of action in many previous Letters. I stated, in fact, that I have never seen a joint decline in utilities and bonds that was not bearish for the stock market.

Next, I want to draw attention to the page 2 chart of my Primary Trend Index (PTI) and the Advance-Decline ratio. Last week produced a bearish development here -- the PTI broke below a very clear rising trendline, a trendline that has contained all the PTI action since January 1993. The PTI has yet to violate its 89-day moving average, but certainly the cracking of a 14-month trendline is bearish enough on its own. In the meantime, the A-D ratio has formed a head-and-shoulder top pattern, a pattern which broke down on February 24.

END? When the market has discounted the best that can be seen ahead, then there's only one way for the market to go, and that's down. That, in fact, is the rationale for the ending of any bull market and the beginning of the next bear market. At 37.7 times dividends for the S&P 500, one has to feel that the market could well have discounted the very best that could be seen ahead. And that, of course, is the key to the current stock market.

MORE ON UTILITIES: Turning to the page 1 chart, note the shocking decline in the D-J Utility Average. This is a decline which has been going on for the past five months, and it's as if the utilities have literally been in a bear market of their own.

What's wrong with the utilities? For one thing, regulators have not been kind to many of them as far as rate boosts are concerned. Secondly, the utilities are extremely sensitive to rate changes, and the Utility Average, in its wisdom, may feel that interest rates are headed higher. Third, utility owners tend to be conservative investors, and these conservative investors may believe that stocks are just "too high," that a bear market cannot be far off, and therefore, they are simply selling their utility shares as they exit the market.

CRUX OF IT: The critical item, the overwhelmingly significant consideration, is the direction of the primary trend of the market. If the bull still lives, then it will take more than a Fed pin-prick to halt it. However, if the major trend of the market has indeed turned down, if a bear market has started, then no amount of put buying or shorting or fearless Fed forecasts or presidential jaw-boning will stop the descent. Which is the reason why I keep harping on the overwhelming importance of identifying the great primary trend of the market.

INVESTMENT POSITION: I can't be sure we're in a bear market, but at the same time I'm certainly not sure that the bull still lives. Therefore, I've replaced the bull with a big question mark. I'll depend on an orthodox Dow Theory bear signal (plus the action of my PTI) to tell me whether we have a definitive turn in the tide.

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As subscribers know, I have not for many months advocated owning common stocks. The risks are too high, and I'm not a gambler. Thumbing through the *Mansfield* chart book (all NYSE stocks) it is shocking to note how many stocks are already down 25% to 35% from their highs. The damage has already been extensive, and we're not even certain yet whether a bear market has started.

I'm still getting many calls about gold stock action during a bear market. My feeling is that both gold and gold stocks should weather

any storm. Furthermore, if a true primary bear market is fated to materialize, there would be serious questions about the viability of the dollar and perhaps most other paper currencies. Remember, in a bull market, debt is your helper. In a bear market, debt is a noose around your neck. With over $15 trillion dollars in all varieties of debt (personal, corporate, government), the US government and its citizens would have a hellish time dealing with the deflationary pressures of a bear market. But gold, if you remember, is the only money that is not someone else's liability. Gold, in other words, is not a product of debt, it's the purest form of wealth -- it's real, tangible money.

TAXES: Here's a fascinating study that I haven't seen before. The chart shows the S&P Composite (solid line) and the maximum individual tax rate (inverted -- dotted line). When the dotted line rises it means that the maximum individual tax rate is declining; when the dotted line is declining the government is raising the maximum individual tax.

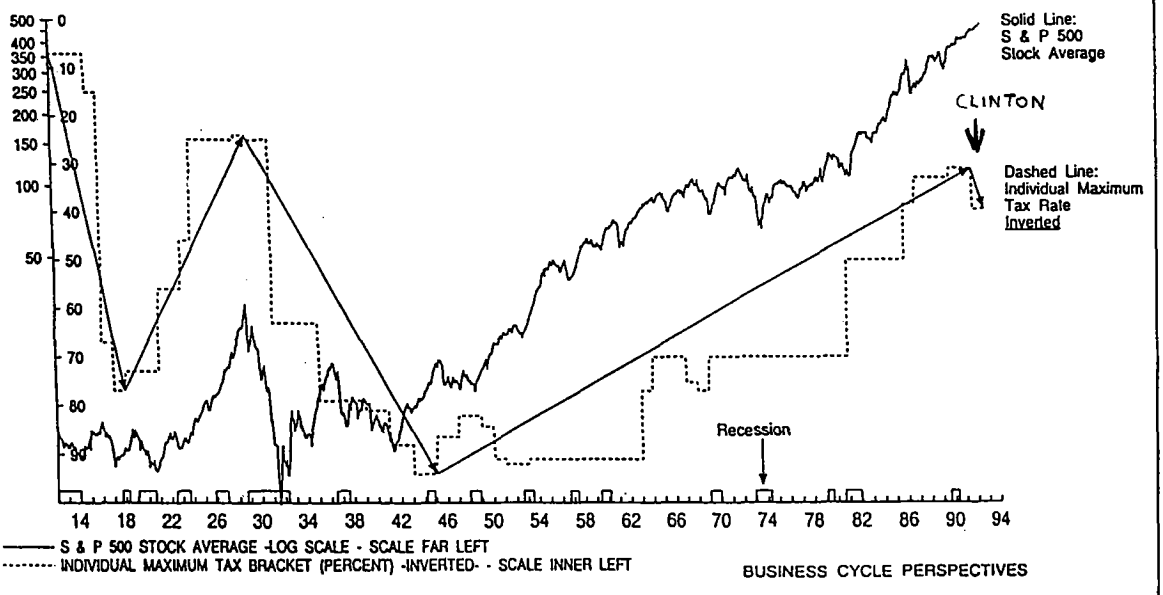
Note that the chart depicts a number of broad trends for the maximum tax, and these trends tend to jibe amazingly well with long-term trends in the stock market. The 1921-29 bull market was accompanied by declining maximum tax rates (MTR). Then in 1932 the MTR was raised, and by 1944 the MTR had climbed (believe it or not) to a prohibitive 95%.

In 1946 the MTR was eased, and by 1949 a major bull market was underway. The bull market lasted until 1966, but in 1967 the MTR was raised. In 1967 the MTR was again reduced and a long period of declining MTR was accompanied by a huge bull market.

The move to a lower MTR lasted until 1993, when Mr. Clinton and Congress instituted the first increase in the MTR since the '60s.

Clinton's excuse for raising the MTR was that he wanted to cut the deficit. Actually, the increased tax money obtained from raising the MTR is probably going towards more Clinton spending.

But isn't the federal deficit going down? If it is, I don't see it. The fact is that the nation is continuing to add to the national debt at the rate of roughly one billion dollars a day (see Gold section for more on the federal deficit).



NOTES & QUOTES: It should have been done long ago, but Clinton has finally moved on it: he is insisting that Japan let down at least a few of the barriers against US exports to Japan. The problem -- the US has a $60 billion-plus adverse balance-of-trade with the land of the rising sun. Unfortunately, Clinton has picked a bad time to pressure Japan. Prime Minister Hosokawa is a reformer with a rather shaky following, and he needs all the bolstering he can get. The Japanese are resisting Clinton's demands for "numerical targets" for US exports. As the *WSJ* put it, "Beyond any trade fight, the broader danger here is that the US-Japan relationship will fray at a delicate time. With a nuclear N. Korea lobbing test missiles at Tokyo and with China on the rise, the last thing America needs is a Japan that decides it can't trust American friendship. Yet Clinton's policy is likely to encourage an anti-American nationalism that has emerged in Japanese politics in the past."

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Pity us Californians. Publicly financed births by undocumented immigrants have boomed. In 1992 nearly 96,000 babies were born to undocumented women covered by the Medi-Cal program. This was an 85% increase over three years. Cost to California's battered taxpayers -- $230 million.

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You have to wonder how western European businesses survive. Here's a breakdown of a typical western European small business' expenses. We're using the salary as an index equal to 100. Gross salary --100; annual bonus --11; Social Security -- 50 (that's right, 50); vacation pay -- 12; sick pay -- 9; insurance -- 3; misc. -- 6. Total cost to employers --**191.** In other words, the total cost of extras almost equals the worker's salary. (These figures are from Corona-Lotus, an actual medium-sized producer of cakes and cookies in Belgium.) The result is that West European industry is being forced to change its "cradle to grave" entitlements approach -- Europe is finding it increasingly difficult to compete in the global market.

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A staggering amount of US money has surged into foreign markets. Through November of last year, $30.6 billion moved into foreign funds, this compared with 1992 (which was a record year), when $6.9 billion went overseas.

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Much is being made of the fact that China is selling prison-made merchandise to the US. This is from the Feb. 9 *Christian Science Monitor:* "California and Oregon are stepping up efforts to export their prison-made clothing to Asia . . . The garments are manufactured by inmates whose net pay falls well below minimum wages. California inmates earn 35 cents an hour for sewing shirts. Oregon prisons pay $6 to $8 an hour, but take back 80% for room, board, and in some cases for restitution to victims."

* *

We spent Saturday and Sunday (Feb. 12-13) in Las Vegas. Reason: Faye's law firm was "doing" a corporate retreat, and I went along for the ride. We stayed at the huge new MGM Grand, and when I say huge I'm not exaggerating. The monster hotel has 5005 rooms, replete with a casino the size of six football fields (with 3,500 slot machines) and restaurants galore. We soon found out that it was Chinese New Year, and we might as well have been in Shanghai, I mean there were a lot of Chinese there (I heard that many flew in from Hong Kong and Taiwan). The Chinese are terrific gamblers. I went down to the casino at 4:30 AM, and there were hundreds of Chinese there who had obviously been gambling literally non-stop for 15 to 20 hours . . . Sunday buffet breakfast was top quality, everything from smoked salmon to blintzes and special omelets, great fruit, yogurt, the works -- all you can eat. Price -- $4.99. The rooms were large for Vegas, elevators fast and plentiful, and I really had

no complaints except for the crowds (the place was completely sold out). Las Vegas is mobbed during the weekends, and it's become a family affair. If you don't gamble, Vegas is a major bargain (as far as I could see, Faye and I were the only two people in the city who weren't gambling). Even the Vegas airport has its rows of slot machines. And oh yes, we saw the Seigfried and Roy magic show in which elephants and white tigers appear and then disappear. The show was sold out. Everything in Las Vegas, it seems, is sold out.

Vegas is now the fastest growing major city in the nation, with a population just under one million. Its main attraction, no state income tax, cheap housing, jobs -- 102,000 people in Vegas work in the casinos. In the last year, three major casinos have opened in Vegas at a cost of $1.85 billion. Statistics: estimated total casino revenue for 1993 was $12.9 billion, up from $8.3 billion in 1990. No less than 23 states now have casinos with another 12 considering legislation for approving casinos. How long will California forego all the tax money that is being garnered via the Vegas casinos?

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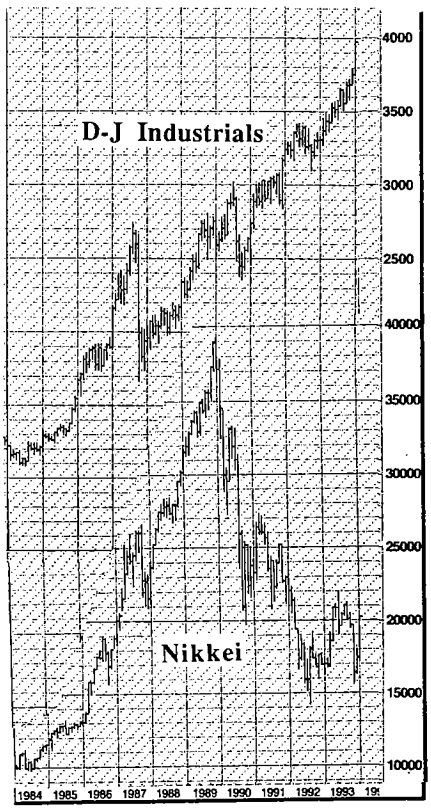
I have pieced together a really extraordinary montage chart of the stock markets of the world's two leading economies. I had been schooled on the thesis that all primary trends are international in scope. But that rule has been broken. Here we see a decade of price action with the Dow in an obvious bull market and Japan's Nikkei stock average in a clear bear market, a bear market that started in 1989 and continues to this day. Frankly, I wouldn't have believed this could happen if I hadn't seen it. Incidentally, the Nikkei led the way on the upside all through the 1960s, '70s and most of the '80s. The question -- is the Nikkei leading on the downside now? If it is, it's certainly a very long lead. But the thought of the Nikkei still leading has crossed my mind.



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I continue to receive letters from physicians warning me to stop chelation. Why? Most don't say, a few say it's dangerous. If it's dangerous, why is chelation the standard, approved treatment for metal (lead poisoning)? While being chelated, I have a chance to talk to many other people who are also being chelated. The stories they tell are not hearsay, they are about the patients' own experiences. Example: an 84 year-old man told me that 12 years ago he had artery stoppages, and could hardly walk. Three physicians warned him that he had to have a by-pass. He decided on EDTA chelation and took 32 sessions. Today he tells me he feels fine and plays tennis twice a week. An elderly woman told me that 10 years ago she was told that she had to have a kidney removed and possibly toes or feet amputated since she had incipient gangrene. She opted for chelation and is now just taking "maintenance treatments." She states that she is feeling fine, kidneys still in place and her feet are cleared up.

Why am I writing about chelation? (1) Because a great many subscribers have written, asking me to relate my experience with it. (2) Because I'm thinking that it's something subscribers should look into on their own (many books on chelation are available at health stores). (3) Because I'm fascinated that so many physicians have warned me against chelation, almost all on the basis of hearsay, none offering facts or personal experience. Almost all the people I have talked to who are actually undergoing chelation feel that it's a medical conspiracy-coverup against the benefits of chelation. Why? Chelation (if, indeed, it works) avoids expensive surgery (and most hospitals survive on surgery). It's an amazing story, and I'll get to the bottom of it in due time.

* *

On the subject of medicine, the pressure is on. America's oldest medical school, Columbia University's College of Physicians and Surgeons will create the US' first university-based center dedicated to the study of alternative medicine. The center will deal with everything from vitamins to acupuncture (and I hope, chelation). The reason: According to the foundation chairman, Richard Rosenthal, increasing evidence that some alternative therapies may provide "significant health benefits . . . We felt it important to have a major medical institution assess which of these many alternative practices are valuable, which are useless and which may indeed be very harmful." Added the dean of Columbia's medical school faculty, "Study of these alternative therapies is the responsible path to take." Russell comment: It's about time. But note how the school has to apologize for even delving into the subject.

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People today are getting far more cancer than their grandparents did. A study in the *American Medical Association* journal states that men born between 1948 and 1957 have three times as much cancer (not related to smoking) as men born in the late 1800s. One theory -- environmental hazards are causing cancer -- poisons, solvents, insecticides, radiation, smoke, etc.

* *

Here's good news for ex-smokers. A recent report in the *Annals of Internal Medicine* states that the mortality rate in women who stop smoking decreases gradually over time, and in women who have stopped smoking for more than 15 years, mortality rates were equal to women who had never smoked. The report warns, however, that smoking in women is not decreasing as fast as it is in men. In fact, young women and those in their teens appear to be picking up the smoking habit at an increasing rate. Incredibly, 25% of Americans still smoke, although medical evidence shows overwhelmingly that smoking is a major cause of cancer and circulatory diseases. Russell comment: People who smoke today are in denial. The reasons for not smoking are overwhelming.

* *

While at a "collectible store" recently, I was examining many US currencies that were framed on the wall. I guess many young subscribers have never seen a silver certificate (a "silver dollar"). It looks like a dollar but it says, "One Dollar in Silver Payable to the Bearer on Demand." In other words, the silver dollar was a note or IOU issued by the government saying that this was a debt of the government, and if you turn it in at the treasury you will receive the real, tangible bit of wealth that stands behind this note -- namely a specific quantity of silver.

No more. Today, if you turn in your dollar all the government will give you is another cleaner piece of paper stating, "This is legal tender for all debts." The dollar is, in effect, a note from the government, but behind that note is the government's unwritten statement, "I owe you nothing."

And Americans accept that! Here's a fascinating bit of history from a book section that a subscriber sent me: "When Marco Polo visited the China of Kublai Khan (1216-1295), he saw nothing worth reporting in their multiplying of sacred texts by block printing. But he did note with astonishment how Kublai Khan, by a kind of 'alchemy,' had made printed paper, in place of precious metals, serve as currency."

The following is from Marco Polo's actual writing: *"Of this money the Khan has such a quantity made that with it he could buy all the treasures of the world. With this currency he orders all payments to be made throughout every province and kingdom and region of his empire. And no one dares refuses it on pain of losing his life. And I assure you that all the peoples and populations who are subject to his rule are perfectly willing to accept these papers in payment, since wherever they go they pay in the same currency, whether for goods or for pearls or precious stones or gold or silver. With these pieces of paper they can buy anything and pay for anything. Here is another fact well worth relating. When these papers have been so*

long in circulation that they are growing torn and frayed, they are brought to the mint and changed for new and fresh ones at a discount of 3%."

There you have the fiat money story -- fresh from Marco Polo's mouth. And where are those fabled "papers" of Kublai Khan today? They disappeared hundreds of years ago. And what of the gold and silver? It's still here. In fact, the ring you wear could very well be made (remelted of course) from a headpiece worn by Kublai Khan.

* *

With the possibility of a Clinton health takeover of medicine as we know it, one advantage of living in San Diego becomes obvious. The advantage is that we're only 25 miles from Tijuana on the Mexican border. Many Americans now go to Mexico for much cheaper (and often alternative) medical treatment, and for bargain drugs. The reason drugs are cheap in Mexico is price controls. Mexico mandates how much drug companies can charge for drugs within its borders. In many cases, identical drugs cost one-quarter to one-half as much in Tijuana as they do in the US. I took a ride down to Mexico last week (on my Harley) to buy Pergonal for a doctor friend. Cost in the states -- $60, cost in Mexico -- $13.87.

* *

Are the Clinton medical plans frightening future medical students? Not yet, they aren't. As of Feb. 1 the number of people applying to medical schools was 7% higher than the same time last year. Last year the number of applicants broke the record set back in 1974 when 42,621 applied.

* *

The feds may mean well, but this idea (espoused by Clinton) is a bit scary. The idea, supposedly, would be to help the feds and the police catch criminals. The government would put a chip in every phone and computer in the nation. This would allow each and every conversation to be monitored. But to protect our privacy, a scrambler would also be put in each phone. This would mean that we couldn't monitor each other, although government agencies could monitor all conversations. Whether this idea would stand up under the law remains to be seen. But it is an idea that law enforcement and intelligence sources would like to see implemented.

* *

Remember Donald Trump? Everyone does. Like rust, Trump never rests. What's he doing now? He still owns 51% of New York's Plaza hotel. Trump has also worked out a deal to keep some of his condos plus his NY Hyatt hotel stake. He's also planning to offer hundreds of millions of dollars worth of stock in his three Atlantic City casinos, even though the casinos are heavily in debt. Trump also wants to build a huge apartment complex in Manhattan on land that he owns. Two years ago the banks forced Trump to sell his yacht, his plane, his airline and numerous other properties, but Trump is fighting back with the help of Wall Street's big bull market and plenty of available loans. Says Trump, "The fact is I had 15 incredible years, and then the world went into depression, plus I probably wasn't working as hard or focusing as much as I was before." Trump owed a fortune to the banks, and the banks figured that with the glamorous Trump name, they were better off trying to keep the Trump "empire" alive, rather than throwing Trump into hopeless bankruptcy. And a few final words from Trump, this from an article in the current *Vanity Fair:* "I don't pay Ivana a penny of alimony anymore. She's moving out of the Trump Tower triplex in January, and I'm moving back in. I'm no longer on a $400,000-a-month allowance from the banks. I'm working on my third book, *The Art of the Comeback,* although I haven't chosen a publisher yet. I bought the land under the Empire State Building from a very wealthy Japanese man. I'm buying an L-1011, that's a wide-body jet that seats 350 people, 10 across." Russell comment: You can't hold a good man down. Wot a guy!

* *

I've written about the "wage gap" before, but now we have a group of real statistics. In the new world of the '90s the gap between (1) computer-knowledgeable vs. computer-ignorant, and (2) college educated vs. non-college people -- will widen. Workers who did not graduate from college (and this comprises 75% of the US work force) have seen their inflation adjusted earnings drop 30% in the last 15 years. High school drop-outs have seen their inflation adjusted earnings drop 38%. Furthermore, with robots, automation, and computers, the gap in both areas is almost guaranteed to widen. This, I believe, will constitute one of the greatest problems of the next 10 years. The operative fact is this -- three out of every four workers in the US do not have a college education.

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You think the Whitewater affair is just another item that will pass in the night? I've got news for you -- it's gathering steam and could be headed for headlines. Many Republicans are still smarting from what they believe was a raw deal for Nixon, and they're convinced that Whitewater and the whole Clinton-Arkansas mess plus the Foster "suicide" will become a bigger story than anything Nixon had to face (and you remember what happened to Nixon). Widely-followed Safire of the *New York Times* has taken off the gloves, and the *Chicago Times,* the *Washington Times,* the *New York Post,* the *WSJ, etc.,* are sensing what could be a very big story. The Clinton crowd is struggling mightily to keep the whole thing out of the news. Trust me, they can't do it.

GOLD: Gold bulls are saying, "Forget about inflation as far as higher gold is concerned, the basic bullish factor for gold is the global supply-demand equation. The world demand for gold jewelry alone is taking up all new gold production. And with the dramatic rise of the Asian economies, the desire for gold will continue to increase."

But beyond supply/demand, Jim Grant in his latest report (*Grant's Interest Rate Observer,* 30 Wall St., NYC 10005) asks the question, *"The great investment issue -- is the long decline in rates well and truly over? Is a new cycle of inflation upon us or is disinflation still the order of the day? The official Grant's line is that rates have stopped falling and the next items on the cyclical agenda are rising commodity prices, rising interest rates, and a new inflation, in that order."*

In recent Letters I've included charts of the commodity indices, which are all continuing to rise. Base metal prices are rising. The percentage of purchasing managers reporting higher prices has jumped from 51% to 60%. The percentage of these same managers reporting slower deliveries (a sign of tightening supply lines) also rose significantly. The percentage of businessmen expecting higher prices rose in the last quarter. Import prices are rising, and they'll go higher if the dollar remains "cheap." Columbia University's leading index of inflation rose sharply last month and is now climbing at its fastest rate in eight years. *Sindlinger's* latest report puts the inflation rate at 8% with most of the rise due to the new taxes.

On the home front, anyone who lives in the real world knows the government's inflation figures are hogwash. All you have to do is go to the supermarket to see the prices rise. You'll see more when you pay your taxes this year. Install a new phone, call a plumber, buy a prescription drug or a shelf drug for that matter, go to a movie, take your poodle to the vet -- prices are rising in all directions, even while Washington's pencil pushers publish their dreamy PPI and CPI nonsense.

But the big picture, to me, is not inflation and not even supply/demand, it's the continuing and unabating rise in federal debt. The very latest weekly figures show that the national debt is now $4.541 trillion. Exactly one year ago it was $4.198 trillion. This means that the US has added $343 billion to the national debt over the last year, or roughly $1 billion each day. For years I've been saying that the first thing any presidential administration must do is deal with the truth. Clinton doesn't fit the bill. Clinton is an "off-budget junkie," but no amount of off-budget slight-of-hand or borrowing from the Social Security fund can cover up the fact that the government is taking in $1 trillion in taxes each year and spending $1.8 trillion. No currency can hold up under such conditions, and the dollar will be no exception.

Gold is real tangible wealth. Real gold in your hand has no margin or debt against it, and no national calamity or political change can undermine its true value. It's the ultimate riskless money. As such, gold's price doesn't change. What does change is the amount of dollars it takes to buy an ounce of gold. As the purchasing power

of the dollar declines, it will require more and more dollars to buy an ounce of gold. Ultimately, there will be a dollar crisis, and the purchasing power of the dollar will collapse. That will precipitate a worldwide panic out of dollars (and probably out of most currencies) into gold.

Of course, it's conceivable that some US administration might actually attempt to pare down the national debt. But sadly, it's too late for that. Because truly cutting the debt would throw the US into a severe depression; in other words, such action would be politically impossible. Which is why the administration and many knowledgeable politicians are terrified of the proposed balanced budget amendment. They know that if this amendment is actually implemented, the result will be economic chaos and depression.

No, the real path for the US is relentlessly towards inflation -- or, to put it another way, a loss of dollar purchasing power. Thus, the long view is that it will require more and more dollars to buy an ounce of gold. The other long view is that the next primary bear market for stocks will be based on unmanageable debt.

I'll say it again. The choice the US faces is "inflate or die," and, believe me, Washington's politicians have no intention of presiding over a dying economy.

The Fed must see the picture, and the real reasons for the recent boost in the Fed funds were, in my opinion: (1) to halt any rise in gold, (2) to put the brakes on the stock market. As far as inflation is concerned, I think that was Greenspan's excuse. But you can see why the Fed is so frightened of a rising gold price. The one thing the public knows is that when gold rises, the dollar is worth less, and that inflation is in the air.

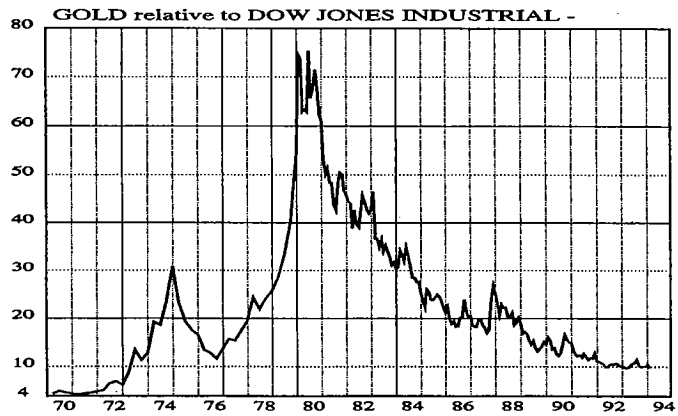
Here's a question you seldom see confronted. Have you wondered why the dollar's purchasing power remains so low compared with the yen and the European currencies? It's as if the world doesn't really want dollars, and thus the dollar remains extremely cheap compared with other currencies (and every traveler to Europe or Japan is painfully aware of this). Large interests (and probably the various central banks) undoubtedly sense that the dollar is on a collision course with reality. The reality, of course, is that the US has high debt, a very low savings rate, and continuing $350 billion-a-year deficits. All three are calculated to put the dollar in a long-term bear market.

Gold Notes: With political pressure building in S. Africa, Krugerrands are now selling there at a record 21.3% above gold content. The latest "problem" is that Zulu King Zwelithini is demanding an independent Zulu state. The far-right whites, meanwhile, are talking about a state of their own. Election time -- April.

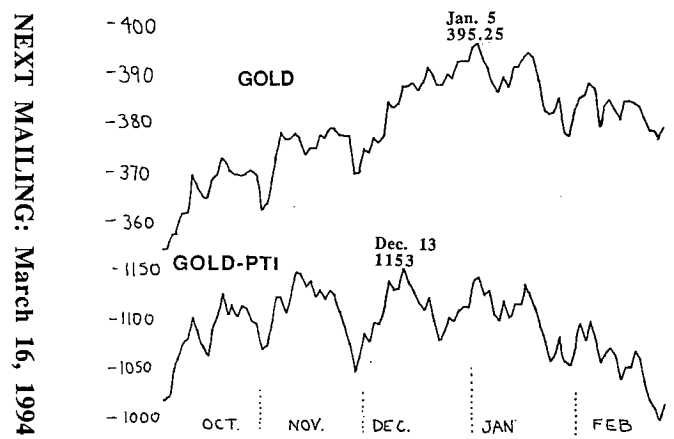
Arthur Hailey (yes, he's the author) was kind enough to send me notes from a speech by the learned Paul Warrington, Vice President of Noranda Minerals, Inc. Here are a few quotes: "If anybody would like a good example of what a government should not do as regards its gold reserves, one only has to look at Canada. In 1980 the short-lived Clark government started selling off our gold reserves, and at that time the Canadian dollar was worth 85.5 cents, while today it is worth about 75.5 -- so much for supporting the Canadian dollar. It just signaled to the world Canada is in trouble, and we are selling off the furniture to pay the rent . . . So far 496 tonnes of gold have been disposed of with the yearly record being set last year when they sold 121 tonnes. At year-end 1993, Canada had only about 6.1 million ounces remaining in reserves (approximately 15.7% of monetary reserves). At the current selling rate of 325,000 ounces per month, it will all be gone in the next year and a half. However, I do not think the government will run the reserve down to zero; more likely they will retain a token one million ounces, thus there will be only another just over 15 months of sales."

Russell comment: This is a very dangerous and stupid policy. It means that there are literally no reserves behind the Canadian dollar -- their dollar has been reduced to just a government published piece of paper. I might add that one can sense or feel the shift of world economic power as gold flows steadily and relentlessly toward the Asian nations and particularly towards the Asian "Tigers."

Here's a different and rather dramatic chart showing the gold price as a percentage of the Dow. What I find particularly interesting is that on a relative basis, gold is now below its 1976 low, and if you remember, 1976 was the time when the gold bull market really started up in earnest. The chart tells us that relative to the Dow, gold is on the bargain table. Subscribers know my long-term prediction: the price of gold and the Dow will ultimately cross (chart courtesy of *Yorkton Securities, Inc.*, out of Toronto).



Technicals: Turning to the price action, my Gold-PTI topped out at a value of 1159 on Dec. 13. Gold rallied to 395.25 on Jan. 25, but here the G-PTI refused to confirm. In the face of the non-confirmation, both gold and the G-PTI headed down. Note that on the decline the G-PTI broke well below its Nov. low, but gold held well above its own Nov. low. As this is written, it's too early to tell whether the broad gold correction is over, but it's encouraging that the metal has refused to confirm the Feb. low in the G-PTI.



LATE NOTES: The sharp market sell-off of February 24 (Dow down 52 points) put the market in a severely oversold condition. In a bull market, a heavily oversold technical condition invariably leads to a rally -- and often to an end to the decline. But if the primary trend is bearish, the market can remain oversold for days on end and often for weeks on end. Therefore, I will be most interested to see what happens from here . . . I will be watching the PTI with interest too. The question here -- will the PTI trace out a declining pattern, or will it try for the highs again? As this is written, the verdict on the major trend of the market is not yet in.

I have to laugh at those who say (and you hear this often) that they see no signs of a recession on the horizon, and "therefore the market should remain bullish." Don't they realize that the market discounts -- it looks past the obvious. It's when "the times can't get any better" that bear markets begin.

If you have any interest at all in China, don't miss the current issue of *National Geographic* with its cover story on booming Shanghai.